

STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: Copley Hospital)	Docket No. 14-003-H
Budget for Fiscal Year 2015)	
)	
)	<u>FINDINGS & ORDER</u>

INTRODUCTION

This year's hospital budget review process continues the progress made last year. The Green Mountain Care Board has carefully reviewed all of the information submitted by the hospitals and analyzed, deliberated, and established each hospital's budget. Again, the hospitals worked hard to meet the policy guidelines and targets established by the Board in 2013, including the 3.8% cap on net patient revenue (NPR) growth (inclusive of spending on credible health reform). As a result, revenue from patient care at Vermont's 14 hospitals is budgeted to rise by 2.2% in fiscal year (FY) 2015 above the approved FY2014 budgets, although, as explained below, this translates to system growth of 3.1%. Either figure represents a historically low growth rate over the past fifteen years.

LEGAL FRAMEWORK

The Vermont Legislature delegated specific powers and duties to the Board, including to "[r]eview and establish hospital budgets." 18 V.S.A. § 9375(b)(7); 18 V.S.A. § 9456. The Board must "establish" each hospital's budget by September 15th and must issue a written decision to each hospital by October 1. 18 V.S.A. § 9456(d)(1). The Board may adjust a budget established under this section upon a hospital's showing of need based upon exceptional or unforeseen circumstances, *id.* § 9456(f), or based on the Board's independent review of a hospital's performance under its budget, GMCB Rule 3.000, § 3.401.

The Board's decision, as reflected in this Order, is based on the Board's review of the record in light of its statutory charge "to promote the general good of the state by: (1) improving the health of the population; (2) reducing the per capita rate of growth in expenditures for health services in Vermont across all payers while ensuring that access to care and quality of care are not compromised; (3) enhancing the patient and health care professional experience of care; (4) recruiting and retaining high quality health care professionals; and (5) achieving administrative simplification in health care financing and delivery." 18 V.S.A. § 9372.

Beginning in late 2012, the Board convened a public discussion aimed at developing policy guidance for this year's budget review. Over the course of several months, the Board received, reviewed, and discussed public comments on hospital budget policy and devoted several of its meetings to the public discussion of these issues. As a result, the Board adopted the FY14-16 Hospital Budget Guidance in February 2013, followed in

May 2013 by separate written policies on enforcement, physician transfers, and community needs assessments.¹

In particular, the Board established two key parameters for the hospitals' FY15 budgets: First, the Board set an overall system net patient revenue growth cap of 3.0% over the hospitals' approved FY14 budget bases. Net patient revenue includes payments hospitals receive from patients, government, and insurers for patient care, but does not include revenues from activities such as cafeterias, parking, and philanthropy. A key indicator used to assess changes in hospital budgets, net patient revenue generally tracks closely with hospital expenditures. In the Board's FY15 Hospital Budget Submission Reporting Requirements, it advised the hospitals that the 3.0% growth target was "inclusive of any provider tax increases and any costs associated with unbudgeted capital investments for which the GMCB approves a Certificate of Need."²

Second, the Board established an additional net patient revenue growth allowance for FY15 of up to 0.8% for "credible health reform proposals." The Board's Guidance document made clear that hospitals have the burden to convince the Board that expenditures listed as health reform are truly investments in a reformed delivery system. The Board offered the following categories of reform initiatives that the Board may deem credible:

- a. Collaborations to create a "system of care"
- b. Investments in shifting expenditures away from acute care
- c. Investments in population health improvement
- d. Participation in approved payment reform pilots
- e. Enhanced primary care and Blueprint initiatives
- f. Shared decision making and "Choosing Wisely" programs

FY15 REVIEW PROCESS

In reviewing the FY15 budget submissions, the Board and its staff carefully reviewed and analyzed all of the information submitted by the Hospital, including utilization information, the Hospital's prior period budget performance, the Hospital's unique circumstances, and public comments submitted to the Board. This was the second year that the Board has required the hospitals to submit their information via the Board's hospital budget software tool, a process that continues to work well.

As explained above, NPR was an important factor in the Board's review because it is a good proxy for the amount of "new money" each hospital intends to spend in FY15. Significantly, the Board's approach to this key indicator evolved as a result of this year's review process. As the Board's staff explained during the Board's public meetings leading up to its budget decisions, the hospitals submitted budgets which, taken as a group, asked for a NPR increase of 2.2%, or approximately \$47 million, over the hospitals' approved FY14 budgets. Thus, using hospital NPR growth alone as a measure,

¹ The FY14-16 Hospital Budget Guidance and the policies on budget enforcement, physician transfers, and community needs assessments are available at <http://gmcboard.vermont.gov/hospitalbudgets>.

² The FY15 Hospital Budget Submission Reporting Requirements document is available at <http://gmcboard.vermont.gov/hospitalbudgets>.

the aggregate increase sought for FY15 was 1.6% below the 3.8% growth cap imposed by the Board's budget guidance.

NPR growth is a useful measure of the extent to which hospital budgets impact overall health care costs, but it may not, by itself, tell a complete story. For example, if a hospital were to divest itself of a particular service line, and that service line was going to continue to exist and serve the community through a different entity, the hospital's budget would show—accurately and appropriately—a decrease in NPR equal to the expected NPR of that service line. However, the NPR associated with that service line would still be part of Vermont's health care system, albeit flowing to an entity other than the hospital. Therefore, in order to make that hospital's requested NPR a better proxy for new money in the system, the Board would adjust it by adding back the expected NPR for the divested service line. It is critical to note that in doing so the Board is not modifying the hospital's requested budget in any way. Rather, the Board is making an adjustment to its own measurement of the hospital's budget, so that we can more accurately understand and report to the public the amount of new money being added to the health care system.

In our review this year, we identified five such adjustments. Some involved acquisitions or divestitures of service lines or practices, some involved other circumstances. Each will be addressed in the findings of the five hospitals at issue. As a result of those changes, the Board arrived at a growth figure of 3.1%, or \$68 million, for FY15.

In addition to NPR, the Board reviewed and established the hospitals' proposed rate increases—the amount by which a hospital must increase its charges to attain its net patient revenue increase, which varies with changes in the hospital's negotiations with commercial payers and changes in Medicare and Medicaid funding. In addition, rates can vary based on changes in the distribution of Medicaid's disproportionate share hospital payments and changes in bad debt and free care. The rate increase discussed in this decision is the Hospital's average overall rate increase. The actual changes in the rates charged by the Hospital will vary across the goods and services provided by the Hospital.

Beyond NPR and rates, the Board considered a wide variety of issues as it evaluated each hospital's budget request, such as the extent of, and reasons for, anticipated utilization changes, the need for additional staff and/or physicians, capital expenditure needs, and the justification for budgeted operating surplus. This analysis included a comparison of key hospital indicators and statistical information with Vermont, regional, and U.S. peers.

In addition to the specific elements addressed in this Order, this year's process identified areas in which the Board will work with the hospitals and others throughout FY15 to further the goals of Act 48. For example, we will continue to work with the hospitals, payers, and all interested Vermonters to better understand how rates are developed and how they impact commercial health insurance rates. In addition, the hospitals made clear the need to maintain and advance payment reform, to keep pace with changes in how care is being delivered.

Procedurally, the Board will continue to engage the hospitals in developing consistent reporting standards that will improve the submitted budget information. We will work with hospitals and other interested parties to establish guidance for the hospitals to use in developing their fiscal year 2016 budgets. Finally, we will work with hospitals and others, through the budget process and through Certificate of Need review, to assure health care resources are allocated in a way that improves value throughout the system.

With those general principles in mind, the Board's specific Findings and Orders regarding the Hospital's FY15 Budget follow. The information collected, reviewed and analyzed by the Board and its staff throughout the review process, including the Hospital's budget submission and narrative, its responses to the Board's questions, and the transcript of its public hearing testimony, supports the Findings and Orders. These materials are available on the Board's website, at: <http://gmcboard.vermont.gov/hospitalbudgets>.

FINDINGS

1. The Hospital submitted the Budget in July 2014. The Hospital requested an overall NPR increase of \$1,804,859 (3.1% over 2014 approved Budget). The major increases in the expense budget are related to increased salaries and fringe and the provider tax.
2. The Hospital requested a rate increase of 0.0%.
3. After reviewing the Hospital's submission, the Board posed written questions and the Hospital provided written responses. The Hospital also participated in a public hearing before the Board on August 27, 2014, where it presented information and answered questions concerning its budget.
4. After discussing all of the proposed hospital budgets at a number of public meetings, the Board made its decisions establishing each hospital's FY15 budget during public meetings on September 4 and 11, 2014.
5. We find that the Budget did not include estimated revenue resulting from the Legislature's 1.6% increase in Medicaid rates, the increase of which has been suspended by DVHA.
6. The Board finds that disproportionate share and provider tax amounts are consistent with DVHA estimates.
7. The Board finds that the Hospital is experiencing a significant increase in utilization, revenues, and operating surplus for FY14.
8. After reviewing the budget, the Board finds that the hospital's \$1.8 million NPR increase is above the 3% Board target by \$70,990. The Hospital adequately justified \$70,990 as credible health reform expenditures. Therefore, we find that the NPR above the 3% target fits within the 0.8% allowance for health reform, and that the overall Budget fits within the parameters set for FY15.
9. The Board encourages the Hospital to work with GMCB to prepare an analysis of their 2014 actual operations that will describe utilization and other key changes in the budget.
10. The Board also finds that approving the Budget will promote the efficient and economic operation of the Hospital, and is consistent with the current Health Resource Allocation Plan.

ORDER

Pursuant to the above findings and the authority granted by 18 V.S.A. Chapter 221, Subchapter 7, the Hospital's Budget is approved for FY15, as adjusted herein and subject to the following terms and conditions:

- A. The Hospital's approved rate increase is established at 0.0%. The Hospital shall not increase the rates charged during FY15 above those approved herein, except after review and approval in accordance with the Board's instructions presented in Exhibit A.
- B. The Hospital's FY15 Budget is approved as submitted, and as outlined in Table 1.

	Budget 2015 As Submitted	GMCB Changes	Budget 2015 As Approved
Net Patient Care Revenue	\$59,600,484	\$0	\$59,600,484
Other Operating Revenue	\$1,510,753		\$1,510,753
Total Net Revenue	\$61,111,237	\$0	\$61,111,237
Expenses	\$59,527,135		\$59,527,135
Operating Surplus	\$1,584,102	\$0	\$1,584,102
Non-Operating Surplus	\$180,000		\$180,000
Total Surplus	\$1,764,102	\$0	\$1,764,102

The Hospital shall contact the Board to reconcile any minor discrepancies due to differing calculations or changed assumptions.

- C. Beginning on or before November 20, 2014, and every month thereafter, the Hospital shall file with the Board the actual year-to-date FY15 operating results for the two prior months. The report shall be in a form and manner as prescribed by the Board.
- D. The Hospital shall advise the Board of any material changes to the Budget or the assumptions reflected in the Budget, including:
 - a. changes in Medicare reimbursement due to CMS final rules;
 - b. additions or reductions in programs or services; or
 - c. any other event that could change the approved budget.
- E. On or before January 31, 2015, the Hospital shall file with the Board, in a form and manner prescribed by the Board, such information as the Board determines necessary to review the Hospital's FY14 operating results, in order to determine whether the Hospital budget meets the Board's enforcement policy.
- F. The Hospital shall file with the Board one copy of its FY14 audited financial report and associated management letter(s) on or before January 31, 2015. The Hospital shall contact the Board if the audit report is not complete by this date.

- G. The Hospital shall file with the Board, in a form and manner prescribed by the Board, such information as the Board determines necessary to review any investment(s) in health care reform that the Board approved as part of the Budget and to assess the return being realized on those investments. This information shall be included with the reporting required by Section C of this Order.
- H. After notice and an opportunity to be heard, the Board may make such further orders as are necessary to carry out the purposes of this Order, and to carry out the purposes of the Hospital Budget Review law, 18 V.S.A. Chapter 221, Subchapter 7.
- I. All materials required above shall be provided in electronic form, unless doing so is not practicable.
- J. The findings and orders contained in this decision do not constrain the Board's decisions in future hospital budget reviews, future certificate of need reviews, or any other future regulatory or policy decisions.

So ordered.

Dated: September 30, 2014
Montpelier, Vermont

s/ Alfred Gobeille)
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s/ Allan Ramsay)
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s/ Karen Hein)
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s/ Cornelius Hogan)
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s/ Betty Rambur)

GREEN MOUNTAIN
CARE BOARD
OF VERMONT

Filed: September 30, 2014

Attest: s/ Janet Richard
Green Mountain Care Board
Administrative Services Coordinator

NOTICE TO READERS: This document is subject to revision of technical errors. Readers are requested to notify the Board (by e-mail, telephone, or in writing) of any apparent errors, so that any necessary corrections may be made. (E-mail address: Janet.Richard@state.vt.us).

EXHIBIT A

POLICY ON BUDGET CHANGES

A hospital wishing to modify its approved budget before the end of the fiscal year covered by the budget shall:

- A. Obtain and submit the approval for the change from its Board of Directors.
- B. Submit a letter of intent regarding a revised budget along with an explanation as to the purpose of any changes and variances. The submission shall be delivered to the Green Mountain Care Board no less than 30 days prior to the date the hospital wants the budget adjustment or rate change to be effective. As applicable, any request for a modification should comply with the Board's policies on net patient revenue, community needs assessments, physician transfers, and/or enforcement.
- C. Submit a complete modified budget in the same form as required during the regular budgeting process to the Board within a timeframe to be determined by the Board.
- D. Submit to the Board a copy of its latest audited financial statement if it has not yet been otherwise filed.
- E. The Board will issue a final decision within 21 days after the receipt of the completed, detailed budget forms.
- F. The Board may extend the timeframes set forth herein for cause.